

**El Salvador Rural Financial Markets Activity Project**

**FOMIR**

**“Associativeness” Workshop**

**Collective Action in the Salvadoran Microfinance Industry**

**Final Report**

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Presented to USAID/El Salvador



## OBJECTIVE

On January 30, 2003 FOMIR facilitated a workshop for partner financial institutions and other actors in the microfinance industry in El Salvador.<sup>1</sup> The *Associativeness* Workshop, as it was called, was a follow-up workshop to one that FOMIR facilitated in October 2002 in which participants identified and prioritized trends likely to impact the microfinance industry within the next three to five years. The term *associativeness* in the workshop title is meant to convey the notion that institutions can increase their individual competitiveness, and that of the industry, through collective action. The objectives of the workshop were to:

- Review issues that participants prioritized in the October 2002 Microfinance Industry Trends Workshop; and
- Examine potential collective action to deal with high priority trends and establish preliminary action plans.

The purpose of this brief paper is to outline some of the key results of the workshop.

## METHODOLOGY

For collective action to be effective in the competitive Salvadoran microfinance industry, FOMIR believes that leadership on issues of importance to the industry must come from those most clearly impacted by such issues. FOMIR, as facilitator, brought together key industry players, with the understanding that those most directly impacted by given issues can lead collective efforts to deal with the issue. FOMIR can continue to play a supporting role, but will not push issues where there is no initiative from partner institutions.

During the October 2002 workshop on key industry trends, participants identified and prioritized those trends most likely to occur (or in some cases to continue) and those that are likely to have a significant impact upon the industry in the next 3-5 years. Most of the prioritized trends fit into one or more of the following:

- Clients and Market Information
- Human Resources and Training
- Regulation and Supervision
- Information and Communication Technology

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<sup>1</sup> Participants included: Santiago Sánchez, General Manager, ACCOVI; Wilson Salmerón, General Manager, AMC; Manuel Torres, Consultant, Accion / Business Manager INTEGRAL; Ricardo Segovia, Executive Director, ASEI; José Eulogio Ponce, ACACU; Patricia Ramírez, CALPIÁ; Silke Muffelman, General Manager, CALPIÁ; Martín Moreno, ACACSEMERSA; Abel Aguirre, ACACSEMERSA; Sandra Lorena Duarte, Economic Growth Officer, USAID/El Salvador; Mercy Castillo, USAID/El Salvador; Francisco Hernandez, FOMIR; Guadalupe Hernandez, FOMIR; and Luis Alfaro, FOMIR. Nathanael Bourns, Robin Young and Doug McLean of Development Alternatives, Inc., facilitated the workshop.

- Financing Alternatives <sup>2</sup>

For the *Associativeness* Workshop, participants divided into working groups for each of these topics, with the exception of information and Communication Technology (ICT). While ICT is of fundamental importance to financial institutions, many of the most important trends identified either fit into other categories (e.g. the trend of increasing need for specialized human resources to run more complex information systems fits well in the HR category), or were specific to individual institutions and less conducive to collective action at this point. For each of the remaining four categories, participants worked together to define potential collective action to deal with important industry trends.

In order to define collective action that is feasible for implementation, participants used the following framework to define each issue and possible activities:

- **Challenge** - the issue to be addressed
- **Goal** - the end or desired result toward which joint efforts are directed, a statement of what the group must achieve
- **Stakeholders** – the individuals, groups, organizations, associations, government bodies, donors, and projects who can affect, or be affected by, the desired outcome of this issue; their interests in the issue and their initiatives that might be complemented
- **Strategy** – the approach that the group will employ to attain the identified goal
- **Action Items** – specific, measurable activities that will help accomplish the goal, including the resources required and the individuals and institutions taking the lead on each issue

Each working group reported their ideas back to the larger group which together implicitly prioritized the ideas based on their willingness to volunteer their time (or that of others from their institution) to work on the activity. By the end of the workshop, participants had identified a number of collective actions that can feasibly be implemented in the coming months, which are highlighted in the following section.

## RESULTS

Judging by the voluntary high-level participation in the workshop, participants appear to believe that, at least in some instances, their interests as competing institutions may be best served through collective action. The proposed actions from each group that participants deemed feasible in the next six months are outlined below. Many of the initiatives represent important steps towards increasing *associativeness*, or the capacity of the group to work together to enhance individual and industry competitiveness.

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<sup>2</sup> For further information on the October Workshop and specific trends identified, see Bourns, Nathanael and Young, Robin. “*Workshop on Analysis of Trends in the Salvadoran Microfinance Industry, Final Report*”, FOMIR, USAID/El Salvador. October 2002.

## Clients and Market Information

The main challenge the Clients and Market Information working group identified was the need to increase access to sector information. The group discussed the need to enhance data collection and information dissemination for the microfinance industry and the general public. The group identified four key groups of stakeholders all of which have an interest in improving the quality of information available on the sector: financial institutions (for market studies), government (to launch programs in the sector), donors and international organizations (to orient assistance and programming), and clients (since improved understanding of their needs may lead to improved services). The group’s short-term strategy is to identify all current sources of data on the sector and all types of information available. The group established the following concrete action items as the first steps toward meeting the goal of improved nation-wide market information:

1. Research all available data sources, including government data and data available from financial institutions<sup>3</sup> (February)
2. Present results of research at a meeting of those interested in the topic (March)

The working group also identified additional longer-term actions of designing a system to monitor market information on a regular basis and identifying an entity that will carry the initiative forward. Dates for these initiatives are yet to be established.

Action Leadership: Oscar Benitez of CONAMYPE volunteered to lead this effort and Wilson Salmarón, General Manager of Adel Morazán Créditos volunteered a member of his staff to support the initiative. Francisco Hernandez of FOMIR will also support the process.

## Human Resources and Training

The Human Resources and Training working group identified the general lack of qualified microfinance staff as the key challenge that institutions face in human resources. The group established the corresponding goal of increasing the pool of qualified human resources available for institutions involved in microfinance. The strategy is to work with stakeholders, such as microfinance service providers, training centers, universities and government programs (e.g. BMI and CONAMYPE sponsored programs) to ensure that human resources capacity building efforts respond directly to the needs of the institutions. The initiatives identified include the following short-term action items:

1. Define the general profile of the human resources institutions require
2. Market microfinance at a specialized job fair and establish a pool of interested candidates
3. Review curriculum and materials used by universities and training programs with microfinance diplomas or specialties
4. Study supply and demand in the labor market for microfinance

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<sup>3</sup> Participants in the larger group discussion emphasized the importance of collecting and updating reliable demand data as well as information on supply.

Action Leadership: FOMIR will coordinate with institutions to further define the issue and to hold a specific meeting on the proposed actions. Interested representatives (e.g. those in charge of human resources) from the institutions present will ultimately have to lead the issue if it is to be addressed.<sup>4</sup> Also, FOMIR training coordinator Guadalupe Hernandez is preparing a resource guide of training providers (organizations and individuals) that will be available by late July.

## **Regulation and Supervision**

The Regulation and Supervision working group identified as key challenges the needs to improve understanding of the laws pertaining to financial institutions and to establish self-regulation mechanisms to prepare for external government supervision. The group's short-term strategy is to generate and share knowledge of the regulatory process, drawing upon the experience and expectations of regulated institutions, institutions in the process of becoming regulated and the Superintendency of the Financial System (SSF). The group defined the following action items:

1. Design and organize a workshop on understanding the law and specific implications for institutions, inviting the SSF, and possibly one or more audit firms with deep understanding of the regulatory environment for financial institutions
2. Conduct a Workshop with the SSF to establish a constructive dialogue among institutions and regulators.
3. Establish a workplan (*plan de incidencia*) responsive to the group's common interests on regulation, taking into account the differences between issues related to the regulation of Non-Bank Financial Intermediaries and the issues that are common to all regulated institutions serving the microfinance industry.<sup>5</sup>

Action Leadership: Wilson Salmarón, General Manager of Adel Morazán Créditos and Manuel Torres, Acción International (consultant to Integral) volunteered to lead the initiative. Santiago Sanchez, General Manager of ACCOVI and Silke Muffelman, General Manager of Calpiá, offered to support the initiative and FOMIR offered to provide a specialized trainer/facilitator for the process in addition to support by Robin Young.

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<sup>4</sup> Participants in the larger group discussed the need to develop a policy, practice and ethic within the institutions human resource departments regarding requesting and providing references on former employees, in particular in the cases where they left the institution because of professional problems. In addition to these collective efforts, participants also recognized the need for incentive plans and definition of salary structures, and the larger group noted that incentive plans are based largely on individual institutional needs.

<sup>5</sup> Issues of common interest across institutions included the banking secrecy law as it relates to participation and access to credit bureaus as well as loan documentation requirements and portfolio classification and reserve requirements for micro and small enterprise portfolios. An additional action the group recommended, which may be institution-specific, was the need to perform institutional diagnostic for possible transformation.

## Financing Alternatives

The Financing Alternatives working group discussed the goal of establishing second-tier financing mechanisms for the microfinance market and facilitating access to financing, especially short-term financing required in times of illiquidity. The group identified as key stakeholders ASOMI, BMI, Fedecaces, Fedecredito and international funds, donors, and financing entities focused on microfinance. The group also highlighted the need to ensure that the performance indicators that investors use are appropriate for microfinance.<sup>6</sup>

The larger group, focusing on the elements most feasible in the short-term, prioritized the following action items:

1. Review all available financing sources (national and international) available to the microfinance sector in El Salvador, compiling a list of contacts, terms conditions and requirements
2. Maintain a continuously updated list of these sources in a single location online

Action Leadership: Luis Alfaro of FOMIR volunteered to take the lead to develop and distribute to the institutions a questionnaire to gather a comprehensive list of all of the funding sources available to institutions in El Salvador. Representatives from the institutions agreed to provide relevant information on funding sources with which they are familiar an/or have direct relationships. CONAMYPE will examine whether it can house and update a list of funding sources for the Salvadoran microfinance industry.

## NEXT STEPS

The workshop closed with a brief discussion of the how the pieces of the Salvadoran microfinance industry—individual institutions, the regulatory environment and government initiatives, market and demand factors, and support service providers—fit together. Collectively, these elements of the industry are what can be referred to as the microfinance cluster. A couple of points from a presentation that Michael Porter from the Institute for Strategy and Competitiveness at Harvard Business School made to the Inter-American Development Bank seem particularly relevant for the microfinance industry in El Salvador today:

- *A company’s competitive advantage is partly the result of the local environment*
- *Company membership in a cluster offers collective benefits*
- *Private investment in “public goods” is justified<sup>7</sup>*

<sup>6</sup> Financing sources, transparency, and standardization of microfinance performance indicators are the primary focus of an international initiative called the Microfinance Information Exchange (MIX) Market (funded by the Consultative Group to Assist the Poorest) is dealing with this issue on an international level. This initiative could be a resource for the group’s efforts deal with this issue. See: [www.themix.org](http://www.themix.org) for further information.

<sup>7</sup> Porter, Michael E. “*Microeconomics of Competitiveness, Learnings about Process.*” Institute for Strategy and Competitiveness, Harvard Business School. Presentation to the Inter-American Development Bank. Washington, DC. November 18, 2002.

While the collective activities that the *Associativeness* Workshop participants proposed may seem modest, they are clear evidence that the Salvadoran microfinance industry is recognizing the value of collective action on certain issues relevant to the industry. Because FOMIR’s partner institutions and other players in the microfinance industry have recognized value in collective action, FOMIR will continue to coordinate the various activities, always with the understanding that local institutions must lead individual initiatives based on where they see value in working together.